Public Finance. By C. F. BASTABLE, LL. D., Professor of Political Economy in the University of Dublin, Examiner in the University of London. London and New York: Macmillan & Co. 8vo., pp. xviii + 672.

The almost simultaneous appearance of two works of a high order of merit in financial science—the one dealing with the whole range of subjects usually included within the scope of public finance, the other[1] an examination of one of the most knotty questions of taxation—is a pleasant indication of the deepening interest that English-speaking economists are now taking in a portion of the general field of economics hitherto too scantily cultivated by them. It has been a theme of much lament that there did not exist in the English language a systematic treatise covering the subject of public finance, or even taxation, as a whole. The field was curiously neglected. While the literatures of Germany, France and Italy had been enriched with several admirable works, dealing with the theoretical, practical and historical aspects of finance, it was hardly an exaggeration when a recent writer spoke of "the body of English literature in finance" as being "shabby in the extreme." So far as the systematic writers on political economy took any notice of finance at all, they hardly went beyond a few crude observations on the nature of taxation in general, and, by way of an appendix to the theory of distribution, an application of its principles to the theoretical determination of the incidence of taxation. Some excellent essays had been written, historical surveys prepared, and statistical data compiled; but, up to the appearance of Professor Bastable's book, no attempt had been made—unless we except the unsatisfactory work of McCulloch—to treat any considerable mass of this material scientifically, much less to give a connected and complete account of the leading theories, principles and methods of finance and taxation.

The manner of its execution shows that Professor Bastable carefully conceived the nature of his task. As making the first attempt at a systematic view of the field, it was his duty to instruct his English readers in elementary principles and to elucidate for them what might be considered to be of permanent value in foreign treatises on the subject. It was primarily with a teacher's interest—from a desire to pro-

[1] Professor Edwin R. A. Seligman's *Shifting and Incidence of Taxation*, which will be noticed in the next number of this journal.

vide the student with a general manual—that Professor Bastable was led to undertake the preparation of the present volume. Judging the book under this light, it must be admitted that he has done his work admirably. Not that he has said all that the student should know; indeed, perhaps, no really good text-book should do this. It is one of the signal merits of the book that it has been written with an eye on the lecturer as well as on the student. The exposition is clear and cogent, even if not always simple, and the discussions are vigorous, however tentative the conclusions. The book is characterized throughout by scholarly conservatism, temperate judgment and intellectual forbearance—qualities which are as impressive as they are rare in economic discussion. The author possesses intellectual sympathy to a high degree, even with those from whose views his own most widely differ. He seldom disposes of an opposite view without first presenting it in a strong light, and carefully sifting out what is sound in it. In these respects it surpasses the two foreign treatises with which it may most naturally be compared, and traces of whose influence it most clearly shows. It is less diffuse, and less easy to read than Leroy-Beaulieu's, and less brilliant and stimulating than Cohn's. But with many of the graces of exposition of Leroy-Beaulieu, Bastable unites a stronger grasp of principles and much of the historical insight of Cohn, while it will probably be reckoned a merit that he seldom leaves the reader suspended in mid-air after a brilliant marshalling of forces, as is too often Cohn's wont. In brief, as a text-book, Bastable's work may, we think, be safely regarded as superior to anything of similar compass in any other language, and, as a piece of economic writing, it may take rank next to Marshall's *Economics*, as one of the best English works of a decade. It is to be hoped that it will speedily meet the destiny it deserves, of promoting the study of finance where this has heretofore been impeded by the lack of a good English text-book. It is to be regarded as fortunate that the preparation of the first scientific treatise on Public Finance, in the English language, should have fallen to such competent hands as those of Professor Bastable.

But the author has all too modestly estimated the value of his work when he describes it as an attempt to "temporarily supply" the need of a text book suitable for use as the ground work of instruction. While the book contains nothing that would be termed a signal contribution to the science of finance, it does embrace much that will prove highly suggestive even to the special student. What originality is dis-

played, is less in the novelty of conclusions than in the fresh statement of proofs and evidences. Even when holding close to widely accepted views, Professor Bastable is seldom merely the interpreter. He has thought out things for himself and, in many instances, given new life to old views by his careful re-examination of them. His book may be regarded as the best treatment of the problems of finance from the conservative standpoint of a writer of the modern English school of economists.

Coming now to the contents of the book, its 672 pages are divided into an introduction dealing with the preliminary questions of the nature, scope, and method of financial science, together with a sketch of its history,—and five books. Of these, one book is given to the subject of Public Expenditure and its principal problems; three to Public Revenues, dealing in order, first, with the more primitive forms of revenue, such as the economic and industrial receipts of the state; second, with the general principles and operation of taxation; and third, with the several kinds of taxes; a fifth, to the relations of public expenditure and revenue, or public debts; and a sixth to the problems of financial administration and control, or the budget.

It is hard to criticise a book dealing with so many diverse topics not especially bound together by any single, controlling line of thought without going too deeply into details. Some of the larger features of the work may be briefly noticed. It will be gathered from the brief statement of the contents of the book that its author takes a large view of the subject-matter of Public Finance, as including not simply the supply of state resources, but the expenditure as well. In this respect, as in many others, Professor Bastable has avowedly followed the precedent of Adam Smith and the Germans, and, as it seems, with propriety. French and English writers have shown a strong disposition to exclude public expenditures from their treatment of finance, and to identify it largely with taxation. The reason assigned for this limitation is the difficulty of discovering any scientific principle for the determination of the proper amount and kinds of public outlay. Now, it is no doubt true that in seeking to establish a fundamental principle of public expenditure we hardly get beyond some such axiomatic rule of economy as the maximum of result with the maximum of outlay, but the insufficiency of the rule should not excuse students of finance from grasping the essential and intimate connection between public expenditures and public revenues. To overlook this relation is illogical, and,

moreover, a grave error of serious practical import. It is the source of the mischievous contrast so frequently suggested between the individual economy and the public economy when it is said that the private person must regulate his expenditure by his income, but that the State regulates its income by its expenditure. There is no such fundamental difference as is here supposed, and Professor Bastable has done well to insist upon the dependence of public outlay on income, and to regard the question of the nature and amount of public outlay as, in a certain sense, 'the final object of the financial system.' It is impossible to adequately comprehend the relations of the public revenues without taking account of the expenditures they are designed to support; the amount of revenue is conditioned by the amount of outlay, but the amount of outlay cannot be determined securely without estimating the pressure that its discharge will occasion. The moment it is perceived that the consumption of the State is a part of economic consumption in general, and that it must be sustained by production, it is seen that the problem of the State as of the private economy, is the co-ordination of wants and the efforts to satisfy them; and a complete theory must take account of both.

A treatment of the concrete forms of public outlay is hardly possible without some examination of the range of functions which it is expedient that the State should discharge. Every expenditure involves two questions: Is the function for the discharge of which the proposed expenditure is to be incurred, politically and economically expedient? And, secondly, if so, is it financially justifiable? The latter question is purely one of finance, the former one of politics, but one which cannot be evaded by the student of finance. On this, as on so many other questions, Professor Bastable is the disciple of Adam Smith. He accepts the substantial truth of the doctrine of *laissez-faire*, but not in the exaggerated and absurd sense sometimes attached to it. Taking expediency in its broadest sense as the final test by which the policy of *laissez-faire* is to be interpreted, and recognizing, moreover, that there is no immutable standard of expediency, but that it is an historical product, he remarks:

"There is no strict and universally binding rule that can mark off the area of its [the State's] action. (p. 99)

"The real ground for limitation of State functions is not the existence of an abstract rule forbidding various classes of acts. The rule itself is dependent on the results of experience. To the plea that in many cases State

interference would obviate evils to be found under a system of liberty, Adam Smith would reply that the legislator's 'deliberations ought to be governed by general principles,' that he must act by rules which in the supposed cases would do more harm than good, and that it is the balance of advantage which needs to be regarded." (p. 48)

Passing by domanial revenues we come to the subject of taxation, which constitutes the central part of modern finance. Taxes are still the main support of the State's economy, and in spite of some present tendencies toward the creation and extension of the industrial domain, they are likely for a long time to remain so. It is fitting, therefore, that taxation, in its theoretical and practical aspects, should engross the larger share of the writer's attention. To the question, what is a tax? Professor Bastable answers: "*A tax is a compulsory contribution of the wealth of a person or body of persons for the service of the public powers.*" This definition has at least the merit of simplicity and brevity, and a tolerable degree of flexibility; nor can it be said to suffer much from excessive vagueness nor from a desire to impart some favorite theory or rule of taxation into the conception, as is sometimes the case. In these respects it is much superior to Professor Ely's definition (which bears so striking a resemblance to Wagner's clumsy definition) and which in its struggle for perfection really fails through indefiniteness, and which is, after all, a description rather than a definition; and yet Professor Bastable's definition leaves something to be desired. The purpose or object of the taxation is too narrowly circumscribed by the employment of the phrase, "for the service of the public powers." Would Professor Bastable deny to protective duties the attribute of taxes? Yet they can hardly be said to be imposed "for the service of the public powers." Nothing less than the general purposes of society, as interpreted and formulated by the established authorities of the land, can constitute the purpose of taxation, if we wish to frame a definition of taxes that shall include those multifarious forms of contribution that people in general understand by the term. The question is one of fact or usage, rather than of theory.

On the question of classification, Professor Bastable rejects the Wagner-Cohn classification of taxes into those, on (1) acquisition, (2) possession, and (3) consumption, on what seem to be insufficient grounds, and it may well be questioned whether his own arrangement is as scientific. His division is based on a combination of the ideas of Adam Smith and of von Hock. Following von

Hock, he arranges taxes into two main groups of 'primary' and 'secondary;' and accepting the position of Adam Smith that taxation must be derived from the constituents of private income, he regards taxes on the factors of production, or, what is tantamount to the same, namely, on the shares in distribution, as 'primary,' and those on consumption or circulation as 'secondary.' Now, one of the most important objects of a logical classification is the light it throws upon the complementary functions of the different kinds of taxes in a tax system. The Wagner-Cohn classification seemed well designed to do this, and it is precisely in this connection that Professor Bastable seems to find himself under the necessity of abandoning his original classification for the empirical one of direct and indirect taxes. The question is, to be sure, largely one of phraseology, for Professor Bastable's 'primary' taxes have much in common with so-called 'direct' taxes, and his 'secondary' with the so-called 'indirect' taxes, and the same is also true, although to a lesser degree, of Cohn's 'acquisition' and 'consumption' taxes. Indeed, at times, Professor Bastable almost insensibly slips into a use of Cohn's classification, as when, in summing up the relative advantages of direct and indirect taxation, he says: "Instead of attacking wealth as it is acquired, its use is made the object of the charge." (p. 326) Has the author not here insensibly slipped into a use of Cohn's *acquisition* and *consumption* (use) taxes?

In his treatment of the equities of contribution, Professor Bastable is much more conservative than most recent writers. In common with them, however, he treats the problem primarily as an ethical one, but one into whose solution economic and financial considerations enter largely, his views showing little trace of the influence of those brilliant Austrian writers who have recently attempted to place the theory of taxation upon a purely economic basis by the application of their peculiar doctrine of value to the determination of the individual's tax-quota. He accepts the traditional view of taxation according to ability as the just rule of apportionment, and believes that the best objective measure of taxable capacity is to be found in income; but on the specific question as to whether justice of distribution is to be best attained through the application of progressive or of proportional taxation, Professor Bastable is in disagreement with what may not, perhaps, be inaccurately described as the dominant note in recent European, or, at any rate, German, financial writing. He rejects the principle of progressive taxation, however, not because of any lack of sympathy with the

ideal of justice toward which it is an attempted approximation, but chiefly on practical grounds, although he also emphasizes its theoretical imperfections. "Its fiscal productiveness is slight, while its economical effects are likely to be injurious" (p. 299). In a similar way, the principle of proportional taxation is accepted, not because it can "claim to be a realization of exact distributive justice; it is rather to be accepted as a convenient and definite working rule of Finance." "Productiveness and a tolerable approach to just distribution are the two essentials in taxation" (p. 407). Here, as elsewhere, Professor Bastable's safe sense of practical limitations saves him from the incautious conclusions which too many impetuous theorists have shown themselves prepared to accept. Wagner's 'socio-political' view of taxation as a means of redressing inequalities of wealth repels him by its illogical attempt "to mix up with one very important object another different and perhaps incompatible one." The "one definite and universally recognized function [of taxation] is the supply of adequate funds for the public services" (p. 306). In the same spirit he disposes of the distinction between temporary and durable incomes "as involving subtleties unsuitable for fruitful application." The question of exempting the so-called "minimum of existence" is treated in a somewhat different manner. He admits the desirability of such exemption, but is too shrewd a student of political science to concede it as a right. In substantial agreement with Cohn, he says: "To tax the very poorest is a sad necessity, but where the want of revenue is urgent not inconsistent with justice" (p. 300).

Our author exhibits the same excellent qualities of judgment in his treatment of the tax system and the various forms of taxes. In contradistinction to 'single' and 'multiple' taxation, Professor Bastable prefers 'plural' or diversified taxation. National income is taken as the normal source of taxation, and taxation of income and of commodities as the great forms of revenue receipts. In attacking income directly he shows a predilection for the general income tax over the method of distinct taxes on the separate shares of income, as a more advanced form of taxation; but the question is not treated as one material in principle. The excellences, defects and functions of the various kinds of taxes are set forth clearly in their leading aspects, in a series of chapters containing much accurate and conveniently arranged descriptive, historical and statistical material. The methods and experiences of England, France, Italy, America and Germany are

constantly placed in comparison for the light they throw upon important questions of principle and practice. Limitation of space has, however, too frequently compelled a brevity of treatment here which must be regarded as regretable.

The prominence given to problems of local Finance by their treatment in separate chapters on local expenditure, taxation and indebtedness, is one of the most commendable features of this work. And it is a real relief to turn from the cumbrous treatment local taxation has received at the hands of most of the Germans to Professor Bastable's lucid but too brief exposition. He shows the importance and fiscal necessity of distinguishing between the sources of local and of national taxation, the principle of payment for benefits received having some application in the determination of local rates, but none in the case of national taxes. Land, house, and 'license' taxes are especially suited for local revenues, and the serious difficulties in the way of their uniform assessment when levied over a wide area constitute an additional reason for relegating their employment to local authorities.

The books on Public Debts and Financial Administration need little notice. The latter is almost the first attempt in English to deal in any but the most fragmentary fashion with the important question of the budgetary control of the finances and the former, in its chapters on the history of the English and the French debts, and on the theory of public credit, contains some matter that may be used by English readers to supplement Professor H. C. Adams' otherwise more exhaustive discussion of the subject of public debts. On the much disputed question as to the respective merits of loans issued at par and those sold at a discount, Professor Bastable is in substantial agreement with Leroy-Beaulieu, Adams, and a host of other writers. He condemns discount-financiering, on the grounds that it results in an enlargement of the nominal capital of the debt beyond the amount actually received, and is likely to prejudice the prospect of future saving through conversion at a lower rate of interest. Against these undoubted disadvantages, it is said, discount bonds possess but the single advantage of enabling a government to temporarily borrow at a lower actual rate of interest, money-lenders being willing to forego something of the present interest in view of the subsequent increase in the value of their securities.

Now, with all deference to the high authority of Professor Bastable, and many others who take this view, these reasons are not to be

regarded as conclusive. It is not clear that the balance of advantage is always so overwhelmingly on the side of par bonds, and that the issue of bonds at a discount is the pure folly it is sometimes represented to be. Much depends upon the particular circumstances in which a country finds itself placed when under the necessity of heavy borrowing, and of making its available resources stretch as far as possible in the support of public credit. A country with poor credit, one whose obligations to pay are not much in demand, will gain little or nothing by the use of discount-bonds, and may lose much; a state, on the other hand, whose credit is ordinarily high may conceivably derive much temporary advantage from an employment of this expedient, without paying too dearly for it in the future. In a country thus situated, the whole question, be it observed, is largely one of financial arithmetic. To the objection that discount-financiering imperils the chance of a speedy conversion, it is to be replied that this is only so if the nominal rate of interest of the bonds be pitched too low—that is, if the paper be issued at too large a discount; but this need not be so. The question is thus one of degree. It may be said, however, that, inasmuch as the momentary advantage of this form of debt-paper increases up to a certain limit, with the increase in the amount of discount, that, therefore, there will be a constant temptation to place the nominal rate of interest very low. But this simply proves that the abuse of this method of financiering, rather than the method itself, is to be censured.

On the other point, namely, that discount-bonds result in an enlargement of the principal of the debt, it is to be said that such certainly seems to be so, but before this can be affirmatively determined, the potential effect of the annual saving in the actual interest paid, effected by the use of such paper, compounded for the length of the period for which the paper is drawn, in neutralizing this increase of capital, must first be calculated. The great historical case usually appealed to, is the issue of the English 3 per cents. during the French wars. That experience can hardly be regarded as conclusive; the debt-policy of England at that time was so much complicated by considerations of another character, that it does not furnish the best data on which to base a scientific judgment. Take a single case from the financial history of the United States, in which the elements of the problem are clearer. By the National Loan Act of July 17,1861, the issue of a seven per cent. twenty-year bond—that

being the rate at which the government could borrow at par — was authorized; a few weeks later, in the supplementary act of August 5, the terms of the original loan were so far modified as to authorize the sale, for any portion of the loan, "at any rate not less than the equivalent of par, for the bonds bearing seven per centum interest," twenty-year bonds "bearing interest not exceeding six per centum per annum." In accordance with the provisions of this act, six per cent. stock was issued at the rate of $89.32 in cash for $100 of stock and, in this shape, the loan proved more attractive to investors and resulted in a temporary saving to the government. But was this advantage too dearly purchased? It would appear that it could not have been if these bonds were in fact issued, as the law assumed they could be, at a rate not less than the equivalent of par for the seven per cents. And it also appears on grounds of strict arithmetical computation that, in the end, the one stock would prove about as costly, and no more costly than the other. And this is as it should be, according to an analysis of the constituent elements of value of these two species of bonds. The one was composed of a seven-dollar annuity for a period of twenty years, plus a deferred payment of 100 dollars, at the end of the period; the other of a six-dollar annuity for a period of twenty years, plus a deferred payment for each 100 dollars subscribed, of about 112 dollars; and the two will be found to be approximately equivalent. And this being so, it follows that what the government loses in the increase of the capital of the debt, it makes up in the original saving of interest. For the slight annual saving thus effected, compounded at the rate of interest paid upon the par bonds, will have amounted at the end of the period for which the bonds are drawn, to the premium which the government would then have to pay in repaying the principal of its indebtedness.

If these elements of the account are in point, it would seem to indicate that the usual conclusion against discount financiering is too frequently reached without taking note of all the considerations entering into the calculation. The conclusion may, however, be sound, even though the ordinary process of reasoning, by which it is supported, is subject to some qualification.

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